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MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

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SOME EXPERIENCE IN THE MANAGEMENT
OF YUGOSLAV INDUSTRIAL ENTERPRISES

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SOME EXPERIENCE IN THE MANAGEMENT OF YUGOSLAV INDUSTRIAL ENTERPRISES

By

NIKOLA BALOG

I. PRELIMINARY OBSERVATIONS

1. The status of industrial enterprises, and particularly their relationship to outside factors, varies considerably according to the particular public corporations. With respect to Yugoslavia, this variety stems, *inter alia*, from the fact that the Yugoslav economy is one comprising only public corporations while private enterprise is limited to the narrower sectors of arts and crafts, and the furnishing of various petty services. Private enterprise is also found in a large part of agriculture, but this can be disregarded, considering the nature of the seminar's theme.

The fact that there are only "public" corporations, called in Yugoslavia "enterprises" or "economic organizations (not State organizations), accounts for a different organization of the whole economy, different relationships toward enterprises, etc. It is self-understood that all the factors having major significance for the management of enterprises differ greatly from those found in countries where private ownership of enterprises is the prevailing form and private corporations appear as only one sector of the economy, regardless of the size of that sector. However, there do occur significant points and problems common with the enterprises of such countries. After all, the problems of management of enterprises have very significant similar points and identical features. Consequently exchange of experiences can be of great mutual benefit.

However, Yugoslav methods and experiences are not sufficiently known as yet. As a result, it is difficult to start by stating problems, when there is little familiarity with the fundamental relationships of the national economy. It is proposed, therefore, to review here in some detail the general organizational problems of the Yugoslav economy and the country's economic mechanism, so that the problems of management can be stated in detail and understood in the light of the given relationships.

2. As has been said, the whole property of Yugoslav enterprises is socially owned. Investment of private capital does not exist in any form in the enterprises.

Enterprises are founded, organized and operated in accordance with uniform principles. There are hardly any deviations from those principles, although where they do on occasion occur the deviations can be considerable. Where speaking of a uniform organization, the general organization

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and sphere of action of the managing organs of enterprises is understood, not the internal organization, since the latter is not in any case subject to regulation by the State. Consequently no such variations occur as are frequently observed in some other countries, notably the Western ones, viz. that upon nationalization or the founding of a public corporation the managing methods, the degree of centralization, the jurisdiction of the organs, the financing, etc. are separately determined for each branch or individual enterprise. In principle in Yugoslavia all enterprises have identical relationships toward the State, that is to say, toward its central organs, as well as toward local organs, such as the towns and the communes, to which latter a special importance is attached in Yugoslavia. This principle of equality in the treatment of enterprises holds not only for the administrative relationships toward enterprises, in the broader Western sense of the word, but also for their financial relationships, their tax obligations and their treatment in the general economic plans.

Such a principle of uniform status for enterprises does not signify, though, that no special attention is accorded to certain enterprises which command a particular importance for the country's economic development. Although all the regulative measures of the State and the general relationships equally apply to them, in actual practice they enjoy greater individual attention directed toward the elimination of their difficulties, and occasionally special measures are undertaken in regard to their position. Such an attitude is logical, and it is by no means unique to Yugoslavia. From a particular point of view, and regardless of the form of ownership and the social system, the problems of the most significant enterprises are the concern of the State as well and the subject of different actions. However, such an exceptional attitude does not affect the basic principle of identical attitude toward all industrial and other enterprises.

In such relationships, Yugoslav enterprises appear, consistently and without exception, as economic and legal entities, as legal persons, possessing all the qualities of independent organizations. They are independently free to organize their production, market their products, realize an income in accordance with the market conditions, allocate their income, after payment of tax and contributions, to salaries and funds; in principle independently establish the prices of their products and maintenance and investments are also effected by them independently from their funds. Industrial and other production and commercial enterprises are independent in their export and import operations, subject to fulfilment of the statutory conditions.

This independence of enterprises relies on management by their own working collectives, i.e., the workers and office employees engaged by the enterprises. This, in fact, represents an integral principle in this country; integral from two angles: (a) that the Constitution entirely prohibits enterprises which are not managed by the workers and office employees; and (b) that enterprises are exclusively managed by their own workers and office employees.

In view of the independence of enterprises and their being managed by the workers, the property of Yugoslav enterprises is socially owned. The State may not perform any act of disposal regarding the property of enterprises, all the rights of disposal being vested in the enterprises themselves, within the law.

3. Production with the aid of socially owned means of production can only be pursued rationally and efficiently by enterprises if they are able to secure day by day their direct material interest through such management. Hence, the material interest of enterprises to achieve the best results in production and productivity represents one of the fundamental components of the economic methods. The material interest of these enterprises is two-fold. On the one hand, achievement of the best results has an impact on an enterprise as a whole by increasing the funds at its free disposal; and on the other hand, an individual impact is produced by raising the

personal income of the workers and office employees commensurate with the results attained in production and operation.

4. Under existing conditions, the material interest, *i.e.*, the creation of the highest income, can best be safeguarded through the market economy. This at the same time indicates that the enterprises under review are producers of goods for the market, where they carry on an exchange of commodities. It is superfluous to stress that such a mechanism presupposes the already described independence of enterprises as regards the selection of production, free exchange of goods, freely contracted prices and mutual competition of enterprises to achieve the highest income on the most favourable terms. In principle, the market economy necessarily brings out all the basic characteristics of such an economic method, *viz.*, supply and demand and price movement as regulators of production; the value realized on the market as the measure of the social usefulness and productivity of labour; the principle of lucrativeness, which is mirrored in the ratio of the value realized to the production costs of the goods and the cost of development of productive forces; the formation of income under the influence of all the circumstances influencing prices; the action of the foreign market.

5. The Yugoslav economic system has to be viewed from the standpoint of the planned co-ordination and guidance of economic development, *viz.* a conscious effort to cause the economy to develop by achieving particular aims. The planned guidance of the economy on the basis of social ownership is mirrored by the possibility of safeguarding balanced development by guiding production and the indispensable concentration of assets. In fact, the combination of what on the surface appear to be contradictory elements—the market and planning—provides a picture of the essential part of the Yugoslav economic system. The market by itself cannot solve the tasks of balanced movement and the quickest pace of development unless its action is guided and its essential points channelled. In this system, planning forms the basic element of social intervention.

In connection with this problem, the question arises where the limit of the guidance or the range of the planning is, and by that token where the limit of the free market is. The trend toward overall planning and a firm envisioning of development (in larger or smaller detail) harbours a danger of reducing the market to a very restricted level with respect to initiative and freedom of action for the enterprises. At the same time events can make such a plan unrealistic. As a result, planning should rely on the *indispensable minimum* of social intervention so as to encourage the quickest possible rate of economic development. The Yugoslav planning method, therefore, is designed to schedule economic development for a particular period of time, and to influence all the economic factors, by means of economic and legal instruments, toward the fulfilment of the plan. At the same time the plan as a rule does not establish the administrative obligations of individual enterprises but relies on their economic interest, which inevitably leads them toward the fulfilment of the economic plans established on the part of the social community. The economic plan, by influencing the distribution of the national income and the market, puts the enterprises in a particular objective situation, which in its turn causes enterprises to proceed in accordance with the directive and provisions of the social plan.

It is clear that the relationship of the social plan to the market is not absolute and established for all time. The gauging of that mutual relationship depends on a series of factors. In this there is an essential orientation in Yugoslavia to strengthen, within the unified social plan which serves to safeguard the most rational relationships in the economy, not only the independence of enterprises, but the economic social role of the producers.

Of course, these preliminary observations cannot exhaust the subject of the institutional development of the Yugoslav economy, nor had it been proposed to do so. Actually, the intent of these observations is only to afford to those attending the seminar a most general survey of the most important elements of Yugoslavia's economic system to enable them to

grasp the extensive range of the problems of management of industrial enterprises there.

As with the Scandinavian paper, the present study can only be regarded as being offered without any desire or expectation of encompassing all problems of management.

II. GOALS FOR MANAGEMENT

6. When it is remembered that Yugoslav industrial enterprises are producing for the market and that they are fully concerned with the material success of their operations, it is obvious that the goal of every industrial enterprise is to realize a maximum income. And that in fact is the goal of management as well.

However, there might arise some misconception about that goal unless we added at once two points. First, fulfilment of the tasks set by society forms a component equivalent in importance to the realization of the largest income; and second, income is realized in the first place by increasing productivity and decreasing production costs.

The purpose of an industrial enterprise is established by the act relating to its foundation. Such an act does not comprise a detailed description of the enterprise's aims, the subject of its operation being established in general terms. On the other hand, in accordance with current and long-term social plans, an industrial enterprise may have a particular orientation with respect to the level of production foreseen for its branch of the economy and also for any other branches for whose needs the enterprise is producing.

The question arises whether the purpose of enterprises is duly traced by those two lines, one of which is a direct one, relating as it does to industrial enterprises alone (the purpose as stated in the foundation act), and the second of which is constituted by the social plan and only indirectly affects an enterprise.

From the producing and commercial point of view, the purpose is sufficiently stated. It is broad enough for the free action of enterprises in accordance with the market requirements, and definite enough to satisfy the needs of the general planned guidance of the economy.

However, the purpose as stated in the founding act has no absolute force for an enterprise. Besides that purpose, an enterprise is free also to carry on other production, subject to compliance with the statutory technical stipulations.

As has been pointed out, the planned provisions relate to the whole economic branch and do not represent a legal obligation for individual enterprises inside a branch. Therefore, such a planned scheduling of production and its level in the country, and the possibility afforded for placing particular categories of goods, can serve for an enterprise as only a most general orientation. However, a series of known factors determine how well an enterprise will do on the market with its production. In fine, the Yugoslav economy as a whole is not interested as to how an individual enterprise will achieve its production, but that the planned targets be achieved as a whole by the various enterprises of a particular branch. The enterprises, again, guided by their material interests, and in mutual competition, are placed in an objective situation to proceed toward the fulfilment of the general provisions of the social plan.

Therefore, the enterprises have a general orientation for their production, they are familiar with the tasks, and that enables them to achieve the results expected of them by the social community.

7. The above provides but an indirect and perhaps insufficiently precise answer to the question of the goals of management in principle, if not in the technical sense.

Public corporations unquestionably are founded for the carrying out of a particular task. Especially in a planned economy this principle is exceptionally important. The possibility of choosing aims and concentrating on the means toward attainment of them is in fact what distinguishes a planned economy. That is the social aspect of the matter.

However, once investment has been made and an enterprise founded, it has to achieve those aims on the basis of its economic interests and its own initiative. According to the Yugoslav conception, an enterprise should be independent enough to realize its aims on the basis of commercial methods, with due regard for social interests. Production and realization of income on the basis of sound commercial principles and the carrying out of the established aims represent two aspects of the same matter. For another thing, it is superfluous to mention that it is upon the income of enterprises that the national income as a whole also depends. Creation of that income and its constant increase is in the interest of the whole society, and also of each enterprise. This parallelism of the general and individual interests vests an enterprise with special moral qualifications for realizing an income.

However, the income of enterprises can be the product of a range of factors. Besides resulting from a reduction of production costs and from increased productivity, income can also accrue from the situation on the home market and the action of the international market. An enterprise may enjoy an exceptionally auspicious position by virtue of its position within the country—as the exclusive producer of particular types of goods, for example, or by benefiting by a specially favourable market for its products—in which cases, “without its own merit” and striving, it can obtain considerably higher prices for its products than is their “normal” price.

The combating of such “non-commercial” conditions belongs primarily within State jurisdiction. To do so, various instruments are available: price regulation, taxation, financial and banking instruments, the methods of regulating foreign trade, and so on. The existence of social ownership of the means of production, as well as planning for economic development on a large scale, makes for at least the partial suppression of such phenomena.

It is pertinent to mention that in the Yugoslav economic system no measures are undertaken by the State in relation to individual enterprises. Instead, all measures apply to the whole economy or to the whole branch concerned.

Individual interventions of the central State organs, the provision of useful measure for the work of industrial enterprises, a closer definition of their finance and production, a more direct appraisal of or a more direct influence upon production costs, determination of or consultation on sales policy, and other similar considerations all call for an appropriate organization of the governmental administration. Especially where the entire industry consists of public corporations such an organizing of the central organs,—i.e., organizing toward the performance of all the stated tasks, as well as the splitting up or concretization of the planned tasks as applied to single enterprises,—has the consequence, according to past Yugoslav experience, of the State's bureaucratization. In such a case the State organs do not confine themselves just to delicate understanding and consultation with the management of an enterprise, but interfere in the relationships of an enterprise, thereby in effect ruining its independence. Responsibility for management passes then to the State organs. Generally speaking, a new process thus beings which from the economic point of view must conduce to disruptions and which has even considerably graver consequences from the social viewpoint.

Such relationships had appeared, at an early stage of the present Yugoslav economy but were soon eliminated as being economically and socially harmful to the principles and long-term methods of management of the economy.

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As a result, intervention of the kind described on the part of the central organs in relation to *individual* enterprises are generally non-existent in Yugoslav practice. Exceptionally, one should bear in mind what has been said in Point 2, Paragraph 3, of the present paper.

8. As has been pointed out above, even though the State has various possibilities at its disposal for controlling the manifestations which can be regarded as negative from the social point of view, the management of an enterprise is not exempted from running it in a way such as to be socially useful. What the line of social usefulness is should be known to an enterprise on the basis of the general economic policy laid down in the social plan, which line, though, is not legally binding for an enterprise and does not involve any legal sanctions in case of non-compliance. This is not particularly important, either, for an enterprise is well aware that the social community expects of it a qualitative and maximum production to satisfy the needs of the consumers. Likewise it is aware of being expected to calculate its costs and include profit, and also to price its products in accordance with the durable market trends (not momentary movements). It is a generally familiar fact that enterprises are required to carry on production at least cost, with maximum productivity, and with as little manpower as possible. Those, in the main, are the absolute economic principles in this country, and it is up to the enterprises to realize them. It is not considered that an enterprise should be an organization to solve unemployment by amassing manpower, nor is an enterprise any kind of social institution. As a solid economic body, an enterprise is not to take account of such non-economic considerations.

Enterprises have their economic funds and funds of a social character available meeting the statutory tax levy and contributions (or their "social obligations", as they are termed). From that remaining income, called net receipts, an enterprise pays its workers and office employees. Incidentally, the obligations toward the social community were established in relative amounts. Thus enterprises are most concerned to realize the highest income, or net receipts, which they allocate *independently* to salaries, economic funds and the social expenditure fund (or the "common consumption fund", as it is termed).

However, in case the income or net receipts are not the outcome of the workers and employees own effort, then such an enterprise has no authority to allocate the relevant part of the net receipts to salaries and the social fund, but exclusively to the economic funds (the basic assets fund, the working assets fund, and the reserve fund). An enterprise itself appraises the degree of its striving, *viz.* the part of the net receipts which had been realized through own effort and the part which had accrued from the market movements. Here there exist specific ratios, as will be shown further on.

Accordingly, the mechanism of distribution of the income spurs an enterprise on to make maximum efforts in order to realize the highest amount of income on the basis of productivity while at the same time it does not discourage it from realizing the income warranted by the market conditions (of course, in so far as there are no State price controls).

Consequently, in addition to what has been said, it is in the interest of society that an enterprise practice remuneration of its workers and office employees in accordance with the success of the enterprise and their personal success. In other words, there must be no high and low salaries, but remuneration according to the combination of general and individual success. That principle, which is at the base of the Yugoslav economic and social system, has been termed remuneration according to work.

A series of problems occur in this context, but they are beyond the scope of this paper. It is pertinent to mention only that those problems involve the objective factors, such as salaries, which can play a significant role in the formation of the income, in individual enterprises and affect the mutual ratios of the salaries of the workers and office employees of *different* enterprises which find themselves in varying economic situations. However, in those domains there exist significant all-society instruments which serve

to eliminate the effect of the objective factors on the salaries, beside the stated obligation of an enterprise itself not to include in the salaries that part of the net receipts which is not the product of the workers and office employees own efforts. Likewise there exist agreements between the labour unions and the producers' associations of particular economic branches regarding the basic criteria of remuneration in enterprises of the same branch.

Lastly, it is not unimportant to mention in this context that possible pay differentials which may be brought about by the objective situation of an enterprise and its policy actually tend, in this phase of development, to promote production and the operation of the enterprise, and therefore represent a positive factor. Such is especially the case in economically undeveloped countries. Later on, though, pay differentials in various enterprises may present a more serious problem if they are not exclusively the result of higher productivity. Therefore, it is indispensable to watch that problem very carefully, which is exactly what is being done in Yugoslavia.

9. Even though social considerations cannot be counted with the aims of operation, they can manifest themselves in the results of an enterprise's activity. For example, an enterprise may not include in its calculations those outlays which are not of a strictly economic character, if the law forbids it (for example, outlays for the training of personnel, and so on). But in this case the law defines the extent of those outlays (as a rule in relative amounts).

However, enterprises are afforded a possibility of utilizing the common consumption fund for social purposes. The degree of this utilization is conditioned in the first place by an enterprise's success in its operations, and in the second place by the policy pursued by an enterprise. An enterprise itself decides whether and in what measure it will make an allocation to the above fund from its net receipts. The decision is conditioned by different needs, the policy of an enterprise, and its maturity. The relevant resources may be utilized by an enterprise to erect housing developments for its workers and office employees, or for health, cultural, sports and other needs. An enterprise may grant loans to its personnel for the purchase of houses or dwelling units, and so on.

Under conditions of workers' management of enterprises, it is obvious that, beside the economic motives, social motives, too, must be in evidence. As a result, even if, for example, layoffs of manpower might be dictated by economic considerations, no automatic action at all is taken such as would be the case in conventional economic enterprises, *i.e.*, by dint of economic laws. An enterprise is far more orientated toward increasing production than toward the layoff of workers. And even if it is not feasible to raise production, social considerations will nevertheless be respected in making the difficult decision to reduce the labour force.

SOME QUESTIONS ABOUT THE MEASUREMENT OF MANAGEMENT

10. This complex issue can be approached from several angles. We shall try to illuminate it from the viewpoint of an enterprise itself and from that of the social community.

First of all, the workers and employees of an enterprise are concerned for its maximum success. Larger success means higher pay, higher economic funds that safeguard a steady future development, and higher non-economic funds that safeguard superior social conditions in connection with their work. Simultaneously they are the managers of enterprises, on behalf of the social community.

Since it is a question here of an economy in which there is a market and mutual competition, there is also a permanent striving to effect improvements in management. Since they do not enjoy special State protection, as is often the case with public corporations in an economy in which private capital is the rule, the working collectives find themselves in a situation where they have to rely on their own resourcefulness and capability in

management. Otherwise, in the absence of those qualities, they can land in a situation similar to bankruptcy.

This situation makes it incumbent upon enterprises to make careful analyses of their work, and this is also required by law. Those analyses are made on the occasion of every settlement between an enterprise and the social community, as a rule every six months and invariably at the end of the year, *i.e.*, in preparing the statement of accounts or the balance-sheet.

Of course, it is difficult to give "recipes" to enterprises regarding objective methods for appraisal of the value of management. As a matter of fact, we have no such recipes in Yugoslavia. For an appraisal of their own management, enterprises first have to eliminate extraneous influences from consideration. This elimination, though not easy, is feasible. Firstly eliminated are all the changes resulting from regulative measures by the State, *e.g.*, changes in the turnover tax, in other taxes and contributions, changes of tariffs, and so on. But elimination of those measures is still not enough to be able to pinpoint the "net" results. It is also indispensable to analyse the effect of the market. For one thing, utilization of the market opportunities must be regarded as a positive criterion in appraisal of the value of management. However, when it comes to establishment of productivity of labour, those movements are apt to dim the picture.

The stated three factors—regulation by the State, the market movements, and productivity—which have a stimulative effect even if they are observed separately, will provide a more or less objective picture of the results of operation.

However, it is not enough to observe only the results of an enterprise as a whole. It is indispensable to observe them also by the component parts of an enterprise (its departments, groups, etc.). In view of the pronounced tendency to pay the workers on the basis of the success of the departments or groups and the personal success of the workers inside those units, measurement of the efficiency of the work of those units forms the basis for such remuneration and is highly useful for establishing the weak points of management.

Of course, it is not the material yield alone that is competent for an appraisal of management, much as it commands first-class importance. As has already been pointed out, fulfilment of the set task has the same value. However, appraisal of the fulfilment of the task is indissolubly bound up with material performance, unless it is a question of magnitudes beyond measurement.

The moral relationship has a prime importance for an appraisal of the fulfilment of the social task by an enterprise. It would be wrong to under-rate this moral factor. It is inconceivable that an industrial enterprise might renounce the fulfilment of its social production task even if that involved material sacrifices (the social production task must not be identified with some administratively-established task on the part of a State organ).

For purposes of appraisal of the efficiency of operation, there also exist in all industrial enterprises internal organizational units, the most notable of which are the financial-analysis groups. These play a significant role in connection with analysis of the itemized financial results in accordance with individual elements of costs.

However, industrial enterprises can also retain the services of special organizations for financial research and auditing as well as of technical-economic bureaus specializing in expert research and acting as consultants. The first type of organization is quite numerous. There are twenty of them and they specialize, *inter alia*, in the organization of economic operations (calculation of production, commercial service, bookkeeping, etc.), in the scientific organization of work, the preparation of investment schemes, the mechanization of office work, filing services, and so on. The bureaus are very few thus far. The usefulness of both types of organization has been proved beyond question, all the more so since they are not under any State

control, but represent consulting agencies whose services are retained and paid for. Also, their services cannot be imposed on industrial enterprises. Consequently the development of those agencies depends on how much their services will be in demand on the part of industrial enterprises. Actual practice has revealed as much. The need for outside appraisal of the financial efficaciousness is appreciated by industrial enterprises, as a result of which a larger number of organizations devoted to such evaluation are operative and are accomplishing their tasks quite well. On the other hand, it is often considered that an industrial enterprise has enough knowledge within its own complex and that external factors can be of little help. This is the basic reason why there are not enough such organizations, which would be indispensable as an adjunct to adequate management of enterprises and an appraisal of their efficiency.

11. Appraisal of the value of management by outsiders is fairly complicated matter. It becomes even more complicated in case the appraisal involves dismissals of managers or changes in the methods of management. In the Yugoslav system it is the enterprise itself, viz. its Workers' Council and Managing Board, which concerns itself with its director and top management. As a rule the outside valuers, the State organs, can influence that but indirectly, as will be explained further on.

In the Yugoslav system one must distinguish two types of action as regards the appraisal of management, viz. the action pursued by the central organs and that pursued as a rule by local organs, that is to say the communes.

The central organs have valuable statistical data at their disposal which enable them to follow the activities of all enterprises in the country, notably those of each single enterprise. The data gathered are those that can be of interest for an appraisal of the relationships inside the enterprises: 29 elements altogether. Inter alia, the data bear on all the various elements of the gross product, all the funds, investment loans and short-term credits, the income, the net receipts, and so on. These data are classified according to the economic branches and domains to which the enterprises belong. The National Bank, as the unified organism at which all industrial enterprises deposit their funds and through which they transact all their cash operations, organizes this whole service, termed Social Bookkeeping Service. On the basis of these data (six-month and yearly ones), all the organs, from the commune to the Federation, are able to follow the activity of each individual enterprise or economic branch.

The comparisons made have been yielding extraordinary results. However, the data are utilized differently by the central organs, and differently, as a rule, by local organs.

The central organs employ those data as a means of management of the economy. Comparative analyses make it possible to establish the extent of tax burden, the movements of income and net receipts, salaries and funds, and so on, and on that basis can be made the necessary decisions regarding planning for economic development, the stimulus of the system, the reaction of the enterprises or branches to particular State actions, their behaviour in given situations, and so on.

The same data are also used by the central organs to present before the People's Assembly analyses of the situation of individual economic branches and suggest measures for improvement of their position. Thus, for example, the committees of the People's Assembly have examined the position of the Yugoslav electric power industry and produced useful recommendations for its future work. Currently the position of the Yugoslav Railways is being debated and appropriate recommendations will be made.

However, those committees are not dealing with the situation of *single* enterprises within the electric power industry or the railways, but are viewing those branches as a whole, and the recommendations relate but indirectly to the particular enterprises inside those branches.

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Although there exist special committees of the People's Assembly on social assets, which committees as a rule consider the adequacy of the utilization of social property, they do not deal with the position of individual industrial enterprises—which number several thousand. However, that matter may be covered in the future proceedings of those committees; the possibility of such consideration is certainly not to be excluded.

It follows, then, that the Federal or central organs hardly go into an appraisal of the management of individual enterprises, unless it is a question of the most significant communities which command an exceptional importance for the economy of the country.

However, there is a different situation when it comes to the local organs, primarily the communes. Having all the necessary data of the Social Bookkeeping Service at their disposal, they carry on appraisal of the working of enterprises singly and on a comparative basis.

First of all, local organs appraise the financial results and the possibility of their improvement. Since the commune gets a share of the tax levy and the contributions of enterprises—which levy and contributions are prescribed exclusively by Federal Law whether in regard to the amount of tax and contribution payable by enterprises or the commune's own share from that revenue—the commune itself is highly concerned financially in the success of the enterprises on its territory. It is interested in having the operating results of enterprises constantly improved.

The commune examines the adequacy of utilization of the assets, the possibilities for improving the efficiency of management, and even itself assists an enterprise as much as possible both in regard to labour, the promotion of workers' training where feasible and warranted, the granting of investment loans, and so on.

The communes pursue various methods in this activity. They utilize the data of the Social Bookkeeping Service and the analyses furnished by the enterprises themselves on the basis of Federal regulations, and the data of their own organs of management. There is no uniform proceeding in the use of the comparative method, the analysis of production costs per unit of product, the analysis of the effectiveness of fresh investments, and similar considerations. Those methods are at present being studied with a view toward the constant improvement of the communes' co-operation with enterprises.

However, an essential importance attaches to the relationship of the commune and other political-territorial units toward an industrial enterprise. The State organs may undertake no direct action. In case they consider that an enterprise is not efficient enough and that possibilities exist for improvement of management, or if they deem that that inadequate dispositions have been made, they can only offer *recommendations* and opinions. They may not issue orders to enterprises, enact individual regulative measures, and so on. The carrying out of a recommendation depends on the enterprise itself. Therefore, whether a recommendation will be put into effect depends on the adequacy of the measures recommended, and also on the extent of the awareness of an enterprise itself of that adequacy.

It goes without saying that the political-territorial units will not issue recommendations concerning the internal organization of the production process. That cannot be the subject of regulation by outside agencies either, but recommendations can be issued toward improvement of the financial results and economical use of assets.

However, there are direct actions which can be undertaken by the commune in relation to the management of an enterprise, but only in event of unlawful operations. That subject will be dealt with in the chapter on the relationship toward the State organs.

13. As can be seen, so far somewhat different relationships have been evolved in Yugoslavia than in other countries to measure the value of

management of industrial enterprises. It is a question of a comparatively young economy and comparatively young industrial enterprises. But that should not be of the essence. The essential point is that industrial production has been growing since 1953—the year when workers' management was introduced—by an average of 11 per cent annually. This year a fourfold production is being marked over 1939. This definitely is a rate of increase which has hardly been excelled anywhere.

In these relationships involving the quality of management of industrial enterprises we have omitted an occasional negligible quantity. The scope of the overall advance of industrial enterprises is so vast, and the actual progress made so remarkable that subtle measurement of management comes second. Nonetheless that does not mean that the matter does not rate attention, from the point of view of lucrativeness, maximum productivity, and the attainment of optimum financial results while fulfilling the production tasks.

III. SOME PROBLEMS OF MANAGEMENT

14. Emergence of industrial enterprises lends a significant characteristic to management. Indeed in case the material conditions of exploitation are not safeguarded at the foundation of industrial enterprises, then, no matter how qualitative, self-government can only mitigate the negative components caused by wrong investments. As a result, the methods of investment making, too, command a great importance. In this, from the point of view of the Yugoslav economy, investment policy represents one of the key problems in the guidance and promotion of industrial production and the economy as a whole rather than of individual types of production alone.

A number of considerations have influenced the Yugoslav system of investment. One of the considerations is to guide and develop the economy, by way of investment policy, in accordance with the economic policy of the country; another consideration is not to have the investments, their type, size and capacity, under the direct management of the State where that influence can be avoided and where it touches upon State-bureaucratic methods; a third consideration is that there should be a money market to an extent which does not hamper the planned guiding of the economy, thus effecting a certain "decentralization" of investments; further, the investor should be materially dependent upon the effectiveness of his investment to the largest possible degree; and lastly, an enterprise should use its own means for new investments, in accordance with its economic capacity.

Those guiding principles for the realization of the investment policy have originated, *inter alia*, from the liquidation of the earlier methods where the State was by far the prevalent investor, where it determined the kinds of investment to be made, their size, the relevant projects and their location, and where it bore the sole responsibility for all that. Despite certain positive aspects, that earlier method also had large weaknesses which were primarily exhibited in a dissonant economic development, in the creation of grave disequilibria and in the impossibility of co-ordinating all the needs. In the long run, the idea of detailed planning for development by the State proved unrealistic. That former system of investment always carried a danger of bureaucratization of investment policy and of its overwhelming development in accordance with political rather than economic criteria.

However, those principles were abandoned and new ones, described above, were adopted, which, in the main, are implemented in the following way:

—The Federal People's Assembly (the central parliament) determines in its social plan the basic levels of spending on investment, establishing them in aggregate amount and allocating the investment means in global amounts to individual economic domains and branches or to a particular type of production;

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—The central parliament establishes the investment projects individually where it is a question of public works or the largest reclamation projects, highways, railways, for where it is a question of the most significant industrial projects like electric plants and the largest projects of the extracting industries. In such cases, the size and the capacity as well as the location and other elements are established, on a basis of profitability by technical, economic and financial experts, upon whom political factors have no statutory influence, although of course a *de facto* influence cannot be excluded;

—On the basis of the lines traced in the social plan, the bank invites bids. Eligible to bid are industrial enterprises and other legal persons, which may be interested on the basis of their investment programme. Loans are granted to those enterprises or legal persons bidding which have proved to be the most profitable and likely to have the most efficient production at lowest cost, which are capable of repaying the loan within the shortest time, and which offer the highest proportion of their own participation in the total amount of the prospective investment. It goes without saying that a prospective investor has to give financial guaranties that he will repay the loan. As a rule such guaranties are furnished by the political-territorial units, and also by the enterprises from their own funds.

—The bank which is to grant the loan examines, through its own experts, the investment programmes to see whether the profitability and effectiveness of the investment have been correctly established and whether all the necessary conditions exist for a particular type of investment, and so on, excluding any political influence from those considerations, which actually represent but a technical issue. Economic policy is concerned with the total amount to be invested in particular projects or types of production. Here the social plan, *i.e.*, the State, is competent. The size, the projects, the location, the efficaciousness of investments belong to the purely technical domain and are the responsibility of the investor, being under the supervision of specialists for the given economic branch or production.

In addition to centralized assets there also exist decentralized ones with the same basic function. The last are held by the communes, towns, districts and people's republics—the political-territorial units—as well as by economic enterprises.

From decentralized assets, in general, investments are made by the same method as described above. Those assets are frequently employed as the self-participation basis for obtaining loans from the centralized assets.

The enterprises' funds also serve, on the basis of a decision by an enterprise itself, for making investments and these assets are frequently employed as a basis to obtain loans from the centralized investment sources or from the decentralized resources held by the political-territorial units.

It can be seen from the above that in the case of investments it is always a matter of the investor's interest in promoting some particular production and that the basic responsibility for the profitability and effectiveness of investment rests on the investor. Every investor will be extraordinarily concerned to attain optimum production at the least cost, not only because the loan has to be repaid to the bank, but because the enterprise will be realizing in its current production an income accordant with the profitability of production.

On the other hand, the social community safeguards planned development by establishing the aggregate levels of expenditure. The extent to which the function of the aggregate amounts will be allocated as to investment or production is conditioned by the needs planned for. Likewise the competition of enterprises and other legal persons to obtain the set resources affords to the community a relative safeguard that the most lucrative investments will be made, and in those domains for which the social community is interested. Thus a place has been given to the monetary market in a measure favouring the planned development of the economy, accompanied in this domain, too, however, by an orientation toward the widest possibilities of independent action by industrial enterprises.

However, the competition alone of enterprises on "the monetary market of investment means" could not satisfy by itself all the social needs, considering that there are economically backward areas in the country which a planned economy cannot neglect as long as those areas exhibit the least possibility of lucrative investment. Special measures are being undertaken for the development of such areas, with due care not to prejudice the general economic criteria as to investment making. This is achieved by enabling the economically undeveloped areas, through grants-in-aid, to obtain loans from the central assets intended for investments, or by establishing the general location of particular types of investment projects which do not directly depend upon definite raw material sources, and generally by canalizing the investment means into such areas in the most reasonable way. For these loans as well bids have to be made by undeveloped areas in mutual competition, from which the developed areas are excluded.

15. Such general solutions of the investment method, consonantly with the bases of the overall economic system, would be incomplete unless one recalled the extraordinarily important technical and economic considerations determinant for investment-making from the social viewpoint. In effect, it is stipulated by law that no investment loan may be granted or work started on an investment project unless there is an investment programme, drawn up by a qualified organization and approved by the appropriate State organ through its experts.

The investment programme has to cover all the points which are necessary for establishment of a social guaranty as to the efficaciousness and lucrativeness of the investment, as well as technical equipment. The investment programme covers the results of research accompanied by an analysis of the raw materials basis; a market analysis and statement of possibilities for placing the products; an analysis of the technological processes; an analysis of the macro-and micro-location; a calculation of the working assets needed, the necessary means according to technological structure and investment terms, as well as the calculation of amortization; the selection of the productive capacity; the price structure of the proposed production; the agreement of the agricultural authority for any projects involving reclamation; an economically-motivated calculation of lucrativeness together with the basic indices; then it provides a graphic representation of the wider and inner location and of the technological processes; the list of the larger building structures; and a list of the principal equipment.

No investment may be entered into without such a programme, no loan can be obtained from the banks without it, nor construction work launched, no matter whether it is a question of an enterprise's own means or those from another source.

Thus there exists a definite social guaranty as regards fixing of adequate size, optimum ratio of costs and investment, and location. The social guaranty occurs precisely through the competition of a number of prospective investors for the same means and the same type of investment programme and their data, it is possible to establish which is the optimum investment in any concrete case from the social viewpoint as well.

Of course, the data may be inaccurate, or they may be coloured with undue optimism just so as to obtain the necessary means. But that is why there exist technical commission charged with checking the accuracy of the data offered. This is not to imply that the preliminary expert appraisal must be infallible. However, within the complex of all the stated factors, in the comparison of the programmes of different investors and their scientific analysis, lies a sufficient, and the maximum possible, social guaranty for the adequacy of the investments. In this the risk borne by the investor in connection with the investment lends a special quality to those investment methods.

16. There is no competition among prospective investors where it is a question of investment in public works, reclamation and improvement

projects, and in those industries which have been listed above (the electric power industry, etc.). The social guaranty of profitability and other optimum solutions lie in the scientific and technical proficiency of the specialists who propose and approve these investment programmes. Elimination of political intervention, the intervention of the authority of the Administration, is a trend which may not necessarily always succeed, but when that influence exists it primarily relates to the location and occasionally the size of the investments. However, the types of investment involving direct establishment of projects on the part of the State should present an exception within the general system of investment, but not in regard to the significance of such investments.

17. Industrial enterprises, through their funds occupy an important place in the province of investment. The appropriate funds which are allocated from the income of enterprises are freely appropriated themselves for new investments, those means account for a substantial part of the total gross investments in the country. At the same time it is to be remembered that sometimes it is difficult to distinguish new investment from spending on replacement of obsolete installations, even though it is a question of "pure" categories from the economic point of view. Very often new investments serve to enlarge installations which are being replaced, so that such replacement also represents a new investment in some measure. It is to be noted that amortization, which otherwise serves for replacement of basic assets, may legally be utilized also for new installations upon decision of an enterprise itself.

The significance of enterprises in regard to expansion of their activity through fresh investments is enhanced by the possibility of pooling the means of enterprises, which subject will be dealt with further on.

In view of the methods of investment, the problem of general planned guidance of investment becomes more delicate in an economy like Yugoslavia's. Solutions have been provided not only through the material interest of industrial enterprises, but through social approval of the investment programmes, as well as the attracting of the available means of the enterprises into joint investment. However, the described methods of guidance were not laid down for all time but are subject to change. For now there is an enormous demand for new investment, which in fact is the natural tendency of any expanding economy. The investment methods safeguard the independence of enterprises in this domain, too, and on the other hand, they serve to safeguard the essential interests of the planned development of industry and the economy. All the more so since the social plan schedules industrial development for a longer period of time. Enterprises and other investors know what branches of the economy or industry have to be promoted for the sake of a harmonious general development. If they fail to gain financial and technical capacity to make the investment by which society safeguards the future, then they themselves will be the ones to bear the consequences. For now there are far more applicants for loans than there are social means or the means of enterprises.

18. The question of personnel has a special importance particularly in an economically undeveloped country. The following observations are offered in that context. The success of new investment is conditioned by capable personnel—such is the old verity which can never be repeated frequently enough. Every new technological process demands its specialized personnel. As a result, provision was made for investment loans to incorporate also investment for training such personnel. As a rule such outlays form a distinct item. The investor is required to plan in advance for his personnel needs, to find the necessary workers and office employees and determine the possibilities for their training within the country in enterprises pursuing a similar production, or abroad. Very good results have been recorded in sending future specialists to progressive and soundly organised enterprises within Yugoslavia.

However, it is not merely a question of specialized personnel for new technological processes alone, but of skilled technical, economic, financial, administrative, commercial, legal and other personnel whom an enterprise cannot itself train, at least not directly.

It is hardly necessary to add that this question is being accorded the attention it rates, as witness the opening of a range of vocational schools, faculties, and so on, in accordance with the general lines of the social plan, the needs of the enterprises, and the trends of development.

Special attention is being paid to adult education. Enterprises and their joint organizations have been setting up centres to provide workers with practical knowledge. The enterprises themselves select from among their workers and office employees those for further professional practical training. The State, through its local organs provides the basic conditions, giving the initiative for establishment of the centres where this is not initiated by the enterprises themselves or their organizations. With its tax policy the State facilitates the establishment of the centres by approving certain spending as material outlays subject to deduction from tax assessment. Further, the State establishes and ensures the material conditions for the founding of instructors' centres, which serve to help the training with their work. Likewise there is a school for industrial executives which was established with United Nations assistance of material and personnel.

As can be seen, in this domain too the basic responsibility rests on the enterprises and their organizations, which is the only possible way, considering their independence and status in the economy. The social community, from the commune to the Federation, only provides conditions so that the initiative of enterprises may express itself in this respect as well, except, of course, for general education which is within the direct jurisdiction of the State.

19. The personnel policy of enterprises is conducted by an enterprise itself through its highest organs. Factors from outside the enterprise have an influence on the selection of its director only. All other matters—determination of jobs, assignment of personnel, their promotion and dismissal, as well as pay—are the concern exclusively of the appropriate organs inside an enterprise itself and outside factors have no right to interfere. Of course, in this domain there exist significant statutory guarantees and control.

However, at present outside factors have a fairly significant influence on the selection of the director. The director of an enterprise is nominated by a commission composed, on a parity basis, of the representatives of the Workers' Council of the enterprise concerned and of the representatives of the commune. The director is selected on the basis of competitive applications, which are invited on the basis of specific conditions for the position as to technical qualifications, past service in particular posts, testimonials of experience, and so on. The commission nominates from among the applicants the one most largely fulfilling the stipulated conditions. The commune where the relevant enterprise has its seat issues the decision of appointment; the commune is not obligated to accept the candidate proposed by the commission, but in such a case applications are invited anew. Only in case that no appointment can be made even at this second try may the commune appoint a director at the instance of the commission without competitive applications.

Exceptionally, where it is a question of industrial enterprises with a special significance, such a commission includes also the representatives of the Federal Government, the Republican Government or the District, depending on the requirement of the superior organs. In this case, too, an identical appointment procedure is observed. It is to be noted, though, that recourse to such a method of appointment has been made only in a few cases thus far.

The question of the director's appointment rates such a detailed description for two reasons: first, on account of the director's importance

in Yugoslav enterprises, which subject will be considered further below; and second, because the director is the only individual who is not appointed by an enterprise itself, through its top organ.

Such a method of appointing directors has its weaknesses which have drawn criticism in Yugoslavia. It is considered that the influence of outside agencies is unnecessary in appointing a director. The latter is responsible only to the superior organs of an enterprise, anyway. It is considered that this method of appointment of the director is a vestige from the past when he was the only organ of an enterprise and one possessing at the same time the powers of a State organ. Consequently the ultimate solution lies along the line of the director's selection by the top organ of the enterprise.

The position of the director of an enterprise calls for a definite stability of tenure. This is guaranteed to him in necessary measure by the law, which stipulates that a director can be relieved of duty only in specific cases, viz. (a) if he fails to comply with the prescripts in his work; (b) if the enterprise is unable to meet its obligations to the social community; and (c) if it is found that there has not been realized that amount of income which could objectively have been realized, or if extra losses have occurred in the operations because of the incapability or negligence of the director.

A proposal to relieve the director of his duties is introduced by the top organ of the enterprise. The proposal is considered by the same commission which is also competent to select a director.

The third reason—(c)—for relieving the director of duty seems not precise enough, but it could not be made more precise. An "objective establishment of the possibilities of realization of the income" is required, which can only be arrived at by appraising the effective situation of the enterprise and the director's own capability—and which leads to appraisal of the worth of the management. However, even this is arrived at on the basis of a demand by the top organ of the enterprise which itself has already researched certain negative conclusions.

THE RELATIONSHIPS OF THE STATE ORGANS TO INDUSTRIAL ENTERPRISES

20. Questions involving these relationships have already been considered above. Only the questions of financial relationships and control remain to be dealt with here.

Special significance is attributed to financial relationships. These have been established as they are not merely with the object of adequate taxation, but primarily so as to have the material interests of enterprises manifest themselves in maximum measure. Stimulation of the operations of industrial enterprises is being built up in this very domain.

In approaching this problem one should recall that in Yugoslav industrial enterprises there exists no proprietor on one side and personnel on the other, with resultant contrasting fundamental economic interests between the proprietor with his manager and the factory personnel. The result of those contrasting interests would be "automatic" taxation of the profit by the State. Of course, today all that is more complicated in private enterprises also, as well as in public corporations. Thus generalization is warranted only for purposes of comparison with enterprises of the Yugoslav type, in which there is absolutely no "proprietor's lever" or representation of the proprietor's interests. For this reason, the financial relations with the State (termed "the system of distribution of income in Yugoslavia), from the point of view of allocations toward social obligations, differ essentially from those involving public corporations of any other type. Here the law has to define the resources which are subject to taxation and not merely to determine the method of allocation of these resources. The foregoing reveals the whole delicate

and far-reaching character of the "system of distribution of the total receipts."

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In their operation enterprises realize a gross product (total receipts). From the gross product an enterprise meets its material outlays, amortization, the value of the basic assets, interest on the basic assets, interest on the working assets (a kind of tax on "capital" as it were) and the land tax, as well as the turnover tax if this is levied on a given product. The balance represents the income of the enterprise.

The income of an enterprise is subject to taxation in that a "contribution from the income" is payable on it, but this particular levy accounts for a small part of the social revenue compared to the other forms of tax and contribution.

The contribution from income is assessed on the basis of the ratio of the minimum personal income of the workers and office employees to the income of the enterprise. The contribution is levied on a progressive scale. However, subject to this levy is only the margin of income above the minimum personal income of the workers and office employees. The bottom contribution rate equals 20 per cent and the top contribution rate 70 per cent of the margin above the minimum personal income of the workers and office-employees.

The amount of the minimum personal income is determined by law, in accordance with the qualifications of the workers and office employees and by economic domains and branches. The established minimum personal income has two functions, viz. (a) it serves as the basis for tax assessment; and (b) the workers and office employees can in no case be paid a salary below the prescribed amount of minimum personal income.

Incidentally, the contribution from income is divided between the commune, the district, the republic and the Federation, on the basis of law and commensurate to the means invested in an enterprise.

The amount of income left after payment of the contribution constitutes the net receipts. The last are allocated by the top organ of the enterprise to the personal income of the workers and office employees and to the enterprise's funds, in the mode described before in this paper. A contribution to the budget (being a kind of tax on salaries) and a contribution for social insurance are payable from the personal income of workers and office employees.

The mechanism of the distribution of the income is based on the following principles:

—Subject to taxation are all the factors influencing the creation of the income, viz. "capital" (including a separate levy on fixed and variable capital respectively), market conditions—by way of the turnover tax on the products, through which economic policy is pursued in relation to individual products while also influencing production and the market; through the tax levy on manpower this essential factor of creation of income is influenced also;

—Use of a progressive scale to levy income tax on enterprises serves to equate the income in the measure indispensable to ensure relatively identical conditions of operation of enterprises;

The effects of this system of distribution of income are as follows:

—Material outlays are determined on the basis of the process of production itself. Those outlays are of a given magnitude which unaffected by outside factors, except that the law bars the personal income of the workers and office and the investments from being met by being charged to those outlays.

—The Amortization rate is established by State regulations, on the basis of the value of machinery, buildings, and so on. Incidentally, in Yugoslavia a complete enumeration has been carried out of all the basic

assets of enterprises, by a standard method, and their value once established, State regulations on amortization rates were issued.

—Income is subject to levy only if it has been realized. There is no anticipation of the income of industrial enterprises in the sense of fixing in advance the amount of income an enterprise must realize, nor is this fixed by the social plan as its obligation.

—The right of an enterprise independently to allocate its net receipts to personal income and funds enables it to develop a pay system stimulative for its workers and office employees and necessarily adjusted to the success of the enterprise as a whole. This right of independent allocation of net receipts is of great significance, for in this way responsibility for the personal income of the workers and office employees and for further development of the enterprise through its own resources is transferred to the enterprise itself through its workers' organs of management. The results recorded in practice to date can be considered as satisfactory.

—Through the agency of this system of distribution of income, the interests of the enterprise are served, in that the labour force is reduced, the production costs cut down, productivity raised, and income enhanced—in other words, by realizing a large income, as has been pointed out before. In view of the progressive nature of the contribution from income, the larger the income the higher the contribution becomes. However, at the same time a larger amount of the net receipts is left to the enterprise for allocation to personal income and funds.

—The State organs exercise control only in regard to the lawful application of the regulations. As mentioned before, the State regulations establish the principles and define the concepts of material outlays, amortization, and minimum personal income, providing the basis upon which an enterprise establishes its income and the prescribed taxes and contributions.

State control is organized through the above described Social Book-keeping Service, which acting through its inspectors examines the lawfulness of the use of social property. This Service operates independently within the complex of the National Bank, through which all industrial enterprises transact their cash operations. In event of illicit action by the Service, enterprises enjoy judicial protection.

21. On the basis of their right to net receipts, industrial enterprises create their pay systems, which are established by them through their pay scale.

A pay scale is issued by the top organ of an enterprise. This labour union and the commune may advance observations on it. In case the top organ of the enterprise does not adopt the observations, the parts of the pay scale which are at issue are put before a tripartite arbitration commission, composed of representatives of the union, the enterprise, and the State organ, whose decision is final. The number of such cases which have been recorded in the country equals only about 1.5 per cent of the total number of pay scales.

The pay scales set the personal income of the employees in accordance with the jobs and the methods of remuneration, viz. by production standards, by performance, by unit of product, by economic units, plus bonuses for executive personnel, rewards etc. In all industrial enterprises the assessment of jobs is made by a uniform method, which has a significant effect on the pay scale too. As a result, the pay methods depend upon an enterprise itself, yet this area is not beyond range of social influence.

One important measure of social influence is the pay scale agreement. This agreement is issued by the central Trade Union bodies in accord with the central industrial trade associations for individual economic branches. Such an agreement determines only the basic minimum relationships.

Another measure of social influence involves the formation of personal income inside enterprises. Since the success of individuals in an enterprise depends on the success of the enterprise as a whole, real pay of the workers and office employees may range considerably above the pay scale rates, not only because a worker or office employee has fulfilled his production task—by production standards, by unit of product etc.—on the basis of his superior effort, resourcefulness and proficiency, but also because the enterprise has realized a larger amount of net receipts.

It has already been said that if larger net receipts should accrue the salaries of workers and office employees may be raised, provided that the receipts are larger thanks to the efforts of the collective working group.

On this particular point there is social influence to ensure that no irregularities should occur in individual enterprises. In this context the commune may make recommendations to an enterprise toward increasing productivity. The recommendations entail no sanctions, being purely of a moral nature, and an enterprise does not necessarily have to abide by them. Of course, this relationship can give rise to problems which can be overcome only with time.

The internal methods of remuneration are a field in which very significant problems are manifesting themselves, and which largely enter into the domain of the scientific organization of work, being attended by all those difficulties which are indicated by scientific literature.

2. The price policy might be of special interest. In general the enterprises themselves fix the prices of their products and services, consonant with the existing economic mechanism, the market mechanism, and the status of the enterprises. Thus an enterprise calculates its prices in accordance with those elements, making the profit warranted by the market conditions.

However, the State controls prices in accordance with the market situation and the needs of the social plan, *viz.* when the market situation so demands.

State control is manifest in the establishment of *ceiling* sale prices of particular products, including as a rule the most important raw materials (without discrimination between the enterprises), and in the special rights of the State organ (the Federal Price Office) involving control of *increasing* prices of particular products. This last control is operated as follows. The enterprise intending to raise the prices of any of its products which are comprised in the State list required to notify the Price Office accordingly. If there is no response from the Office within a specified time, the enterprise may increase the prices as per its notification. On the other hand, the Office itself may demand a price increase, but only a few such cases have been recorded in practice. Actually, this control amounts far more to observation of price movements than to *de facto* State control.

This type of control had been introduced due to current movements on the market. It will be maintained as long as necessary, the fact showing that they do not represent a basic method of control. The fundamental principle concerning prices remains based on the market mechanism, involving a market which is guided in the necessary measure and subject to the action of the social plan.

NON-GOVERNMENTAL RELATIONSHIPS

23. We shall cite only a few relationships with a significant function in the organization of production in Yugoslavia.

On the basis of law, industrial enterprises are affiliated with the Chamber of Industry, while industrial enterprises from particular economic branches are affiliated with their trade associations.

In view of the fact that the State provides the basic material and organizational conditions for the promotion of production, and in view

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of the fact that this promotion, technically speaking, does not belong within the sphere of action of the State, that task actually forms the responsibility of the producers or enterprises themselves and their associations such as chambers and trade associations.

Consequently those non-governmental organizations—chambers of industrial trade associations—have the basic task of encouraging industrial enterprises toward better organization of production and operation, and of stimulating co-operation, joint production, specialization, adoption of scientific methods, and similar considerations. In particular, a chamber looks to the Government as well. It puts the demands of industrial enterprises before the State organs, considers the drafts of laws, economic measures and, last but not least, the draft of the social plan.

In general the conclusions of the chambers and trade associations are not binding on industrial enterprises, but are carried out by the members of the chamber or association on a voluntary basis.

The Chamber of Industry and the industrial trade associations have become strong economic bodies. Theirs is a major influence on the work of enterprises. They are gradually creating their institutes, bureaus and other organizations which are helping enterprises with their work, while also assisting the Government in the taking of various actions.

It goes without saying that there is a considerable amount of co-operation between the Government and the Chamber and trade associations. Through the agency of this co-operation, the Government is able to evaluate in advance the measures it intends to take and, for another matter, it is also kept informed about economic developments with a major interest for economic movements and results.

Finally it is pertinent to note that the chambers and trade associations are not agencies of business in the sense that they may themselves conclude contracts, undertake business operations and similar transactions.

ORGANIZATION OF THE MANAGEMENT OF ENTERPRISES

24. In every Yugoslav enterprise there are three organs: the Workers' Council, the Managing Board, and the Director of the enterprise.

The Workers' Council is elected by all the workers and office employees who are of age, by direct and secret vote. The workers and office employees who have polled the largest number of votes become elected to the Workers' Council, regardless of what voting ticket they were elected on.

The Workers' Council, which numbers from 15 to 60 members, elects the Managing Board, while the Director is appointed by the method described earlier.

Workers from the basic activity of the enterprise must account for at least two-thirds of the members of the Workers' Council.

The term of office of the Workers' Council members is two years.

The Workers' Council is the top organ of the enterprise. It conducts the economic policy of the enterprise, issues all the fundamental acts of the enterprise, its statute, pay scale, rules on labour relations, protection at work, etc. The Workers' Council allocates the net receipts, issues the economic (annual and long-term) plans, establishes the balance-sheets and the statement of accounts. It also conducts the personnel policy in a broad sense.

The Managing Board, which numbers from 3 to 15 members, manages the enterprise. It issues the more important resolutions relating to operations and prepares all proposals for the Workers' Council. It appoints, at the instance of the Director, the executive employees of the enterprise. It deals with complaints against the Director's decisions or those of the commissions for engagement of workers, and with similar

matters. Also, the Managing Board controls the work of the enterprise's Director.

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The Director of the enterprise organizes the production or work process. He heads the whole administration, acting also as the disciplinary chief in so far as any of the relevant powers were not delegated to the disciplinary commissions, which deal with the graver offences.

The Director represents the enterprise before the State organs and the law courts. He signs on behalf of the enterprise, and he also makes all contracts.

The Director may delegate his powers to his assistants or to a number of office employees.

Such, briefly, is the internal organization of management.

However, in an enterprise there also exists a collegium of technicians, composed of the top executive employees, which acts as an auxiliary and advisory organ to the Director of the enterprise.

The Director has the right and obligation to prevent enforcement of any resolutions of the Workers' Council and the Managing Board which are against the law. In all other cases he is obligated to put into effect the resolutions of those organs.

These relationships may give rise to specific problems. One organ might encroach on the jurisdiction of the other organs. The Director's authority might loom so large as to make his influence decisive. However, not all the problems which are called into being by life can be solved by the Law, which establishes the competencies of an enterprise's organ in outline. Again such problems are solved precisely by life itself, by practice, and by a scientific organization of work.